

Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 XMB-02

OPIC-03 IGA-01 EA-07 /103 W
----- 057660

R 210900Z SEP 75

FM AMEMBASSY SANA

TO SECSTATE WASHDC 6406

INFO AMEMBASSY CAIRO

AMEMBASSY JIDDA

LIMITED OFFICIAL USE SANA 2655

EO 11652: N/A

TAGS: ENRG, EALR, YE

SUBJECT: TOYOMENKA/SANTA FE TERMINATES YAR PETROLEUM CONCESSION
AGREEMENTS

1. BEGIN SUMMARY: IN LETTER DELIVERED TO YARG SEPT 20,
TOYOMENKA/SANTA FE FORMALLY ANNOUNCED INTENTION TO ABANDON
FURTHER ATTEMPTS TO LOCATE PETROLEUM AND/OR NATURAL GAS DEPOSITS
IN YAR, THUS ENDING ONLY MAJOR PRIVATE US INVESTMENT EFFORT IN
YEMEN. TWO MEN DELEGATION COMPOSED OF EDMUND PENDLETON,
TOYOMENKA KAISHA COUNSEL, AND DR FELIX BENTZ, VP SANTA FE
MINTEALS, MADE ORAL PRESENTATION TO YARG DEPRIMIN JEGHMAN,
MINECON AL-THOR, AND MINDEV ERYANI SEPT 18. ALTHOUGH SOME
POSSIBILITY OIL/GAS IN TIHAMA AREA PARTICULARLY, TOYOMENKA/
SANTA FE FELT THAT COST FACTORS AT PRESENT TIME PROHIBITIVE.
TOYOMENKA DECISION LEAVES SHELL AS ONLY COMPANY CURRENTLY
ENGAGED IN PETROLEUM EXPLORATION IN YAR. END SUMMARY.

2. TOYOMENKA/SANTA FE JAPANESE-US JOINT VENTURE AND ONE OF TWO
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COMPANIES THUS FAR GRANTED CONCESSIONS FOR PETROLEUM/NATURAL

GAS EXPLORATION IN YAR. YENLL ACQUIRED OFF-SHORE CONCESSION IN RED SEA (HODEIDA NORTH TOBAYDI) LATE 1973, AND TOYOMENKA GRANTED SMALLER RED SEA AREA (HODEIDA SOUTH TO BYB AL-MANDK) 1974. IN FEB 1975, TOYOMENKA GRANTED FURTHER ON-SHORE CONCESSION PERMITTING COMPANY UNDERTAKE SEISMIC SURVEY ENTIRE TIHAMA PLAIN NORTH ON HODEIDA. INITIAL MAGNOMETER READINGS COMPLETED THIS SPRING. COMPANY WAS TO HAVE DECIDED BY DEC 1975 WHICH HALF OF TIHAMA IT WANTED INCLUDED AS ACTUAL ON-SHORE CONCESSION AREA.

3. TWO REASONS CITED BY SANTA FE VP BENTZ (WHO IS COMPANY'S CHIEF GEOLOGICAL EXPERT) FOR DECISION ABANDON FURTHER YAR ACTIVITIES. FIRST, GEOLOGICAL DATA INDICATED OFF-SHORE DEPOSITS, IF ANY, WOULD MOST LIKELY NOT RPT NOT BE IN COMMERCIAL QUANTITIES. SECOND, ALTHOUGH DATA NOT RPT NOT SO CLEAR ABOUT ON-SHORE PROSPECTS, EXPENSE INVOLVED IN DRILLING ON-SHORE TEST WELLS TOO HIGH FOR COMPANY TO CONSIDER WITHOUT SIZEABLE OUTSIDE PARTICIPATION WHICH COULD NOT BE LOCATED. COST OF ONE ON-SHORE WELL ESTIMATED AS MINIMALLY \$5 MILLION (VERSUS \$2 MILLION OFF-SHORE). IN CONTRAST WITH SANTA FE'S EGYPTIAN OPERATIONS, SURVEY TEAMS AND ALL SUPPLIES WOULD HAVE TO BE BROUGHT IN FROM ABROAD. THREE EGYPTIAN WELLS COULD BE DRILLED FOR EACH YEMENI ONE. BENTZ TOLD YARG OFFICIALS SANTA FE HAS LOST HEAVILY RECENTLY IN VIETNAM, SIERRA LEONE, CAMEROON AND OTHER INTERNATIONAL VENTURES. NEW US TAX LAWS WRITE-OFF OF EXPLORATION COSTS MADE INTERNATIONAL VENTURES COSTLIER. SANTA FE HAS NEW MANAGEMENT AS RESULT, AND IT WANTS CONSOLIDATE ITS OVERSEAS OPS, AND CONCENTRATE ON PROVEN WELLS IN NORTH SEA.

4. APPARENT THAT SANTA FE HAS ALL ALONG DEPENDED ON THIRD COMPANY PARTICIPATION TO FINANCE BULK (80 PERCENT) OF ON-SHORE VENTURE. ATLANTIC-RICHFIELD AND ARCO AMONG AMERICAN COMPANIES APPROACHED, ALTHOUGH TOYOMENKA TRIED TO INTEREST SEVERAL JAPANESE FIRMS AS WELL. NONE OF THESE COMPANIES WOULD PARTICIPATE, HOWEVER, IN PART DUE TO THEIR CURRENT INVOLVEMENT IN EXPENSIVE NORTH SEA OPERATIONS AND IN PART DUE TO CONTINUED DOUBT EXISTENCE OIL OR GAS IN SUFFICIENTLY LARGE QUANTITIES TO MERIT SUCH LARGE LIMITED OFFICIAL USE

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EXPENDITURES AT THIS TIME. ARCO HAD BEEN FIRM MOST FAVORABLE TO SOME KIND OF PARTICIPATION BUT FINALLY DECLINED PARTICIPATE THREE WEEKS AGO. DECISION PRECIPITATED TOYOMENKA MOVE TO ABANDON FURTHER EFFORT IN YAR.

5. SOME YARG OFFICIALS DISPLEASED BY TOYOMENKA/SANTA FE DECISION. DO NOT FEEL COMPANY HAS BEEN AS CANDID FROM START AS TO INTENTIONS IN CONCESSION AREAS AND NECESSITY FOR

THIRD-PARTY INVESTMENT AS THEY MIGHT HAVE BEEN. DEPPRIMIN JEGHMAN MOST POINTED IN HIS REMARKS AND ASKED PENDLETON, WHO HAS VISITED YAR ON THREE OCCASIONS, WHY COMPANY UNDERTOOK SUCH LARGE VENTURE IF THIRD COMPANY INVESTMENT REQUIRED. PENDLETON RESPONDED THAT AT TIME OF NEGOTIATIONS, PROSPECTS FOR SECURING ADDITIONAL OUTSIDE INTEREST WERE GOOD, AND THESE HAVE SINCE DETERIORATED.

6. BENTZ AND PENDLETON DECLINED CONSIDER NEW VENTURE WITH YARG FINANCIAL PARTICIPATION AS OFFERED AT THURSDAY MEETING. YARG UNWILLING PAY FOR COMPANY'S PAST EXPENSES OR AGREE TO TOYOMENKA'S SMALL (20 PERCENT) DEGREE OF PARTICIPATION, AS TOYOMANKA INSISTING.

7. MINDEVELOPMENT IRYANI NOT SANGUINE ABOUT FINDING NEW TAKERS FOR TIHAMI ON OFF-SHORE CONCESSION AREA SHELF BY TOYOMENKA/SANTA FE. HOWEVER, SINCE PART REASON SANTA FE WITHDRAWAL FROM YAR WAS FALL-OUT SET BACKS ELSEWHERE, IRYANI HAS SOME HOPE USING EXISTING SEISMIC WORK TO INTEREST ANOTHER COMPANY IN "FINISHING" T/SF WORK.
SCOTES

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM CONCESSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 SEP 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: buchant0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SANA02655
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750327-0525
From: SANA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750931/aaaabawm.tel
Line Count: 136
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: buchant0
Review Comment: n/a
Review Content Flags:
Review Date: 30 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 JUL 2003 by ShawDG>; APPROVED <29 DEC 2003 by buchant0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: TOYOMENKA/SANTA FE TERMINATES YAR PETROLEUM CONCESSION AGREEMENTS
TAGS: ENRG, EALR, YE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006